

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 58th LEGISLATURE - REGULAR SESSION

COMMITTEE ON APPROPRIATIONS

Call to Order: By **SENATOR TOM ZOOK**, on January 6, 2003 at 8:00 A.M., in Room 303 Capitol.

ROLL CALL

Members Present:

Senator Tom Zook (R)
Senator Bill Tash (R)
Senator Keith Bales (R)
Senator Greg Barkus (R)
Senator Ed Butcher (R)
Senator John Cobb (R)
Senator Mike Cooney (D)
Senator John Esp (R)
Senator Royal Johnson (R)
Senator Bob Keenan (R)
Senator Rick Laible (R)
Senator Bea McCarthy (D)
Senator Linda Nelson (D)
Senator Trudi Schmidt (D)
Senator Debbie Shea (D)
Senator Corey Stapleton (R)
Senator Emily Stonington (D)
Senator Jon Tester (D)
Senator Joe Tropila (D)

Rep. Dave Lewis, Chairman (R)
Rep. Rosalie (Rosie) Buzzas, Vice Chairman (D)
Rep. Edith Clark, Vice Chairman (R)
Rep. John Brueggeman (R)
Rep. Tim Callahan (D)
Rep. Stanley (Stan) Fisher (R)
Rep. Eve Franklin (D)
Rep. Dick Haines (R)
Rep. Donald L. Hedges (R)
Rep. Joey Jayne (D)
Rep. Carol C. Juneau (D)
Rep. Dave Kasten (R)
Rep. Christine Kaufmann (D)
Rep. Monica Lindeen (D)

Rep. John Musgrove (D)
Rep. Jeff Pattison (R)
Rep. Rick Ripley (R)
Rep. John Sinrud (R)
Rep. John Witt (R)

Members Excused: None.

Members Absent: None.

Staff Present: Jon Moe, Legislative Branch
Mary Lou Schmitz, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Joint Meeting - Senate Finance and Claims and House
Appropriation, 1/6/2003

Clayton Schenck, Legislative Fiscal Analyst, welcomed the Legislators back to Helena and introduced his staff. He referred to the Legislative Budget Analysis 2005 Biennium, Volume 1 (Exhibit 1). **Mr. Schenck** said this legislature has spent more time preparing legislation than he's ever seen before. There are four Volumes. Volume 1 is a statewide perspective as well as a general reference. Volume 2 is where the revenue estimates are and that will be a working document for the Taxation Committees. Volumes 3 and 4 will be working documents for the Subcommittees the next 45 days.

EXHIBIT (aph01b01)

Mr. Schenck announced that tomorrow morning the committees will get together again in Room 102 and he will further familiarize them with the appropriation process and terminology. Staff will present major fiscal issues by program area. There will later be a general orientation for legislators and he encouraged them to attend any time to discuss the process and issues or concerns they may have about this.

{Tape: 1; Side: A; Approx. Time Counter: 0 - 5.9}

For the first time in over a decade, Montana is facing a substantial general fund budget shortfall, estimated at between \$230 and \$250 million for the biennium relative to present law budget requirements. This deficit is due to a sharp decline in taxable income from stock options and capital gains, as well as a decline in corporate taxes and an increase in state expenditures driven by human service caseloads and medical costs. In this

challenging fiscal environment, the 58th Legislature faces the task of developing a budget that preserves funding for the state's highest priority services, but also addresses the large deficit. It provides legislators with a new perspective on state problems.

They will also look at how other states have dealt with this problem. Montana did not feel a recession like the rest of the country. It is highly dependent on agriculture, tourism and natural resources as well as mining. The economic outlook is obviously very tenuous. Corporate profits are expected to remain solid. Property tax values are expected to increase with re-appraisal but that issue will be discussed later.

The biggest question is, what are the implications of an economic recovery and how soon will it be expected. That will be a crucial question as the legislators work through this budget because built into the revenue estimates what is anticipated in terms of the needs of human services.

Tourism is recovering but we are still recovering from the effects of 9-11 as the uncertain prospects of taxes as well as the stock market. It makes the revenue estimation very difficult.

The bottom line is, the national economy is recovering but very slowly and there are still huge recession risks as a result of the stock market drop. There is still a real need for caution in drafting budgets and revenue estimates at a time like this. Lower revenue estimates that were adopted by the Revenue and Transportation Interim Committees will now become the introduced version of HJR 2.

Mr. Schenck referred to page 5 of Volume 1 which shows the breakdown of General Fund revenue. There is a complete summary on page 37. General Fund expenditure growth is referred to on page 6.

{Tape: 1; Side: A; Approx. Time Counter: 5.9 - 14.7}

Page 7 shows the general fund expenditures. These components are driven by demographics, population, and other factors. The statutory appropriations component is predominantly local government assistance and debt service on state indebtedness.

Revenue growth is expected to slowly recover in the 2005 biennium.

Mr. Schenck referred to Page 10, figure 1, projected general fund balance, Present Law Only. The present law projection provides a

starting point for deliberations and reflects a statutory requirement that aids the legislature in prioritizing budget issues between maintenance of existing services and provision of new services.

Figure 2, Page 12 provides a summary of the budget analysis proposed in the executive budget intended to resolve the deficit and provide a balanced budget for the 2005 biennium.

The executive budget proposal is a \$6.8 billion budget for total funds and \$2.6 billion of that is general fund. That reflects a total spending increase for the 2005 biennium in terms of the 2003 biennium, a \$472 million increase in the total funds, after adjusting for a fund switch for K-12 education. That is a biennial increase of 1.8% general fund and 7.5% total.

{Tape: 1; Side: A; Approx. Time Counter: 14.7 - 28.4}

In regard to expenditure proposals, they are defined by a series of additions and reductions in various sizes that impacts the most in various agencies. There are no significant reductions or eliminations in this budget. If there are any, they are concentrated in the Human Services area.

New proposals for general fund are dominated by reductions to meet general fund reduction targets.

Some of the issues are a \$232 million deficit and the executive proposal provides a combination of revenue and expenditures' adjustments for funding budgets. The executive budget, to maintain a balanced budget through the 2005 biennium, relies on a \$93 million transfer from the principal of the coal severance tax trust fund to the general fund at the end of fiscal 2004. See page 79 of Volume 1 for a list of the appropriated trust principal in the past.

{Tape: 1; Side: B; Approx. Time Counter: 0 - 27.1}

Chuck Swysgood, Director, Office of Budget Program and Planning thanked his staff who have worked long, hard hours to address this difficult situation. He also extended his thanks and gratitude to the agencies for their cooperation, and to the Legislative Fiscal Division for their cooperation while working with his Department during this process. He noted **Mr. Schenck's** thorough summary and did not repeat the executive budget overview. There are some differences in his budget as presented on November 15. The one difference between his budget and the Legislative Fiscal Division staff's revenue estimates is about \$1.4 million over the three year period.

Questions from the Committees:

Senator Shea asked **Mr. Schenck** to explain his statement concerning a \$475 million increase. **Mr. Schenck** said in terms of total funds, that is true. It is largely an increase in federal funds for human services, corrections and transportation. That is an increase over the first biennium in total funds.

Senator Schmidt referred **Mr. Swysgood** to page 15 and the mention of \$50 million proposed expenditure. **Mr. Swysgood** said the \$50 million is unspecified reductions. A big portion of that is for the University system, about \$25 million. The other reductions are agencies that haven't decided where they will make up some of their shortfalls to vacancy savings and he assumes as the subcommittees go through their deliberations that those questions will be answered.

Motion: **Representative Clark** moved that the fiscal 2004 and 2005 general fund base budget for each agency/program in HB 2 be adjusted to equal the lower of the fiscal 2000 base budget or fiscal 2003 appropriated level as adjusted for August 2002 Special Session action.

EXHIBIT (aph01b02)

{Tape: 2; Side: A; Approx. Time Counter: 0 - 15.9}

Representative Lewis explained the motion saying, if they don't use the Coal Trust, and for the purposes of working on HB 2, if they are going to have a fund balance, they have to cut the budget enough to replace that Coal Trust to create a fund balance. He referred to the back of EXHIBIT 2. The effects of this motion is to offset the coal tax money, or Trust money, to provide for a fund balance which we don't have right now. This will give us a starting point and proceed to HB 2.

Questions from the Committees:

Senators Stonington, Nelson referred **Representative Lewis** to the back of EXHIBIT 2 for further clarification and explanation.

{Tape: 2; Side: A; Approx. Time Counter: 15.9 - 27.1}

Senator Tropila asked **Representative Lewis** for explanation.

Discussion:

Representatives Forester, Lindeen, Kaufmann, Senator Schmidt to Representative Lewis, Mr. Schenck and Senator Zook for further explanation.

Motion: Senator Keenan moved the same motion that **Representative Clark** made for the Senate Finance and Claims Committee.

Further Questions and Discussion from Committees:

Representatives Buzzas, Lindeen, Senators Shea and Stapleton to Mr. Schenck, Representative Lewis and Director Swysgood regarding concerns and procedures.

{Tape: 2; Side: B; Approx. Time Counter: 0 - 27.4}

Senators Schmidt, Johnson, Butcher and Cobb to Terry Johnson, Fiscal Analyst and Representatives Juneau, Franklin to Senator Zook for further explanations and comments.

Motion: Senator Cobb moved the General Fund base budget for Department of Health and Human Services for FY 2004 is 262,301,509 and for FY 2005 is 268,902,396.

EXHIBIT (aph01b03)

Motion: Representative Lindeen moved the same motion for the House.

Discussion: Representative Brueggeman spoke in opposition to the motions.

Further Discussion: Representative Buzzas, Senators Zook, Cobb and Tester.

Vote: Cobb motion, Exhibit 3, failed 9-10 with Senators Zook, Tash, Barkus, Bales, Butcher, Esp, Laible, Johnson, Keenan and Stapleton voting no.

Vote: Lindeen substitute motion failed 8-11 with Representatives Lewis, Clark, Brueggeman, Fisher, Haines, Hedges, Kasten, Pattison, Ripley, Sinrud and Witt voting no.

{Tape: 3; Side: A; Approx. Time Counter: 0 - 27.2}

Vote: Clark motion, Exhibit 2, carried 11-8 with Representatives Buzzas, Callahan, Franklin, Jayne, Juneau, Kaufmann, Lindeen and Musgrove voting no.

{Tape: 3; Side: A; Approx. Time Counter: 27.2 - 29.8}

Discussion: Senators Tester and Keenan

Vote: Senator Keenan's motion (Senate motion for Representative Clark's motion, Exhibit 2) carried 10-9 with SENS. COBB, COONEY, McCARTHY, NELSON, SCHMIDT, SHEA, STONINGTON, TESTER and TROPILA voting no.

Motion: Senator Cobb moved the Senate Finance and House Appropriation Committees recommend the two Taxation Committees of the Legislature bring to the appropriate House and Senate bodies in new taxes for the general fund that raise \$43 million in FY04 and \$47 million for FY05. (Does not include provider taxes)
EXHIBIT (aph01b04)

Substitute Motion/Vote: Senator Stapleton moved a substitute motion to adjourn. Substitute Motion failed 8-11 with Senators Cobb, Cooney, Esp, Johnson, McCarthy, Nelson, Schmidt, Shea, Stonington, Tester and Tropila voting no.

{Tape: 3; Side: B; Approx. Time Counter: 0 - 7.8}

Vote: Senator Cobb motion carried 12-7 with Senators Zook, Tash, Barkus, Butcher, Laible, Keenan and Stapleton voting no.

Discussion: Representative Lewis recommended that motion not be offered in the House Taxation Committee. Senator Zook recommended that the Secretary of the Senate Finance Committee draft a letter saying there is a motion pending.

With no further business, Chairman Zook declared the meeting adjourned.

ADJOURNMENT

Adjournment: 10:35 A.M.

SENATOR TOM ZOOK, Chairman

REP. DAVE LEWIS, Chairman

MARY LOU SCHMITZ, Secretary

DL/MS

EXHIBIT (aph01bad)